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SUBJECT: URIBE COMMITTED TO POVERTY REDUCTION BUT SUCCESS
WILL BE CHALLENGING

Summary

¶1. Colombia's poverty rate of 49 percent -- which reaches almost 70 percent in rural areas -- exacerbates the urban-rural divide and feeds social conflict. President Uribe has boosted social spending, and improved economic growth and targeted social programs have cut poverty rates. Still, Uribe's public emphasis on security, coupled with the magnitude of the poverty problem and a high level of inequality, means he receives little public credit for his anti-poverty efforts. The GOC's new "Strategy for Strengthening Democracy and Social Development" links increased social spending to the GOC's security policy and the Free Trade Agreement with the U.S. Progress on all three will be needed if the GOC is to achieve its goal of reducing the poverty rate by at least ten percent by 2010. End Summary

Half the Country in Poverty

¶2. Approximately 22 million Colombians live under the poverty line, with over 6.5 million in extreme poverty. Poverty is defined as an individual living on less than USD 100 per month, and extreme poverty is USD 40 or less per month. Between 1970 and 1995, sustained economic growth led to the poverty rate dropping from 69 percent to 49 percent. In 1996, the economy started to slow and poverty began to rise. By 1999, Colombia was in the throes of its worst recession in seventy years: GDP plummeted by 4.2 percent and a decade's progress fighting poverty evaporated. By 2005, steady economic growth and strong anti-poverty programs brought the poverty rate back to 1995 levels. Colombia's poverty rate is historically higher and more variable than the regional average: between 1997 and 2005 Latin America poverty gradually dropped from 43.5 percent to about 41 percent.

Poverty Rates in Colombia

Year	Poverty Rate	Extreme Poverty
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1995	49.5	15.5
1996	50.9	17.2
1997	52.7	18.5
1998	55.3	20.8
1999	57.5	25.4
2000	55.0	19.0
2001	55.2	18.7

2002	57.0	20.7
2003	50.7	15.8
2004	52.7	17.4
2005	49.2	14.7

Income Distribution and the "Two Colombias"

¶3. Income distribution in Colombia is among the worst in the world. Colombia's Gini index (which measures income inequality) was 56.0 in 1995, rose to 60.0 in 1999 and dropped back to 55.3 by 2005. It is now similar to that of Brazil and Peru. Poverty is more acute in rural Colombia than in urban areas. Over 68 percent of the approximately 12 million people living in rural areas in 2005 were impoverished, versus 40 percent in the cities. The extreme poverty rate is less than five per cent in Bogota, but it is almost 50 percent in rural departments like Choco. The number of rural poor is less now than it was in the late 1990's, but it stayed relatively flat between 2003-2005.

¶4. Pervasive rural poverty creates what Santiago Rojas, director of the Foundation for Good Government, calls the "Two Colombias." Former Minister of Economic Development Mauricio Cardenas says Colombia's sharpest divisions, rural vs. urban, poor vs. non-poor, and strong state presence vs. weak state presence, largely coincide. Moreover, Colombia's income inequality means economic growth trickles down slowly to the poorest segment of the population. He estimates that only half of recent poverty reduction reflects growth: the other half comes from programs targeting the poor. Cardenas said the key to bridging all three divides is to achieve sufficient state capacity to deliver quality education and

health care to the rural poor. Cardenas and Rojas said poverty, inequality and the rural-urban divide fuel Colombia's social conflict and impede growth.

Security Efforts Eclipse Social Welfare Programs

¶5. The public sees President Uribe as weak on poverty. Gallup polling in late 2006 showed Uribe's approval rating exceeded 60 percent on all issues but one: his handling of poverty where a majority disapproved of his policy. Andres Davila, Director of Security Issues at the National Planning Department, said he worries that the emphasis on security creates the appearance that other issues do not matter. A recent editorial in "El Tiempo," Bogota's leading daily newspaper claimed Uribe's focus on security suggests he does not care about poverty.

¶6. Despite the negative public view, Uribe has boosted spending on social programs from just over 7 percent of GDP in 2002 to almost 8 percent of GDP in 2006. Fabio Sanchez, director of the Center for Economic Development, said most of the increase was on education: during this period the number of primary and secondary public school graduates went up by almost 20 percent and the number of college graduates increased by 30 percent. Similarly, the number of people receiving health subsidies increased by over 70 percent, rising from 10.7 million in 2002 to 18.6 million in 2006. Increased spending on Internally Displaced People (IDPs) was especially dramatic: while the government spent less than USD 300 million on IDPs from 1995-2003, it spent over USD 800 million between 2003-2006. Throughout the period, social spending substantially exceeded security expenditures.

¶7. "Families in Action," the GOC's flagship poverty-reduction program, began in 2001 under President Pastrana with about 80,000 families participating. The number of families increased under Uribe to 500,000 families, or 20 percent of all families in extreme poverty, by 2005. The program gives conditional cash subsidies to the poor and is widely credited with contributing to the sharp fall in poverty and extreme poverty between 2002 and 2003. Subsidies

are discontinued if children do not attend school and or fail to have regular health check-ups. The program has been a notable success: school attendance and child height, weight, and vaccination rates all increased, while child labor and birth rate statistics decreased.

Spotlight on Poverty

¶8. In mid-November President Uribe announced a new development plan that envisions reducing the poverty level to 39 percent in four years and to 15 percent by 2019. The plan contemplates a billion dollars per year of new funding for health, education and poverty reduction programs. Money has not yet been budgeted for the plan which will be considered in a special session of congress starting in the first week of February. The plan is incorporated into the administration's draft "Strategy for Strengthening Democracy and Social Development" which focuses on social welfare programs and poverty reduction. A major component of the strategy is to strengthen the economy through structural reforms and trade liberalization. The strategy links a U.S.-Colombia Trade Promotion Agreement to GDP growth, job creation and poverty reduction.

¶9. Families in Action will be the "axis of intervention" for poverty reduction under the new development plan according to Juan Pablo Franco of Accion Social (which manages the Families in Action program). The number of families included would rise to 1.5 million, or about five million persons by ¶2010. Local governments would hire approximately 30,000 social workers to help poor families meet specific anti-poverty benchmarks. Benchmarks include, obtaining government-issued identification documents which are key to employment and access to social programs, going to school, and establishing clear title to land.

Comment

¶10. Colombia's poverty rate has fallen over the past four years due to strong GDP growth and effective social programs. Unfortunately, the recent gains in poverty reduction and income equality have only returned Colombia to its pre-recession level of 1995. The GOC's plan to reduce poverty to between 35-39 percent by 2010 will test historic limits of Colombia's social development, and may not be attainable given the current disparity in urban vs. rural incomes. Social programs alone are unlikely to reduce poverty to the targeted levels. Continued improvement in the poverty rate and income distribution level will also require consolidation of recent security gains and further structural economic reforms, including those that would flow from the entry into force of the U.S.-Colombia Trade Promotion Agreement.
DRUCKER